

Message Text

UNCLASSIFIED

PAGE 01 NEW DE 13619 151135Z

55

ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 AGR-10 AGRE-00 /076 W

----- 120605

R 150859Z SEP 76

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 8381

INFO AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

UNCLAS NEW DELHI 13619

PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EGEN EFIN IN

SUBJECT: RBI ANNUAL REPORT HIGHLIGHTS ECONOMIC GAINS

SUMMARY. THE RESERVE BANK OF INDIA (RBI) IN ITS ANNUAL REPORT COVERING THE PERIOD JULY 1975-JUNE 1976, POINTS TO SIGNIFICANT IMPROVEMENTS IN INDIAN AGRICULTURAL AND INDUSTRIAL PRODUCTION COUPLED WITH PRICE STABILITY FOLLOWING TWO YEARS OF HIGH INFLATION AND ALMOST STAGNANT ECONOMIC GROWTH. IT NOTES WITH SATISFACTION THE UNPRECEDENTED RISE IN INDIA'S FOREIGN EXCHANGE RESERVES IN 1975-76 DESPITE A LARGE FOREIGN TRADE DEFICIT FOR THE SECOND YEAR IN SUCCESSION AND ASCRIBES THIS SUCCESS TO SUBSTANTIAL INFLOWS ON THE INVISIBLES ACCOUNT DUE LARGELY TO GOI'S POLICIES TO CHECK ILLEGAL TRANSACTIONS IN FOREIGN EXCHANGE. REPORT FORECASTS OVERALL ECONOMIC GROWTH THIS YEAR OF 6 TO 7 PERCENT BASED ON A MODERATE INCREASE IN AGRICULTURAL PRODUCTION AND A SUBSTANTIAL IMPROVEMENT IN INDUSTRIAL PRODUCTION. THE PRESENT PRICE SITUATION, HOWEVER, IS DESCRIBED AS VULNERABLE WITH DEMAND PRESSURES SLOWLY BUILDING UP, AND THE REPORT WARNS AGAINST ANY COMPLACENCY ON THE PART OF THE INDIAN GOVERNMENT IN THE COMING MONTHS ON THE PRICE FRONT. END SUMMARY.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 NEW DE 13619 151135Z

1. MAJOR HIGHLIGHTS OF THE RBI'S REVIEW OF THE ECONOMY IN 1975-76

ARE:

A) INDIAN AGRICULTURAL PRODUCTION INCREASED BY 8 PERCENT IN 1975-76 COMPARED WITH AN ACTUAL DECLINE IN OUTPUT IN 1974-75. OVERALL FOOD SITUATION HAD IMPROVED FURTHER WITH GOI HOLDING COMFORT-ABLE BUFFER STOCKS;

B) OVERALL INDUSTRIAL PRODUCTION WAS UP 5.7 PERCENT IN 1975-76 COMPARED WITH ONLY 2.5 PERCENT GROWTH ACHIEVED IN 1974-75. OUTPUT OF CORE SECTOR (LARGELY CAPITAL GOODS) INDUSTRIAL UNITS INCREASED BY 10 PERCENT IN 1975-76, WITH SUBSTANTIAL INCREASES RECORDED IN THE PRODUCTION OF COAL, STEELS, FERTILIZERS, NON-FERROUS, METALS, AND POWER GENERATION. HOWEVER, THE OVERALL GROWTH WAS SMALLER BECAUSE OF POOR PERFORMANCE OF THE IMPORTANT COTTON TEXTILES INDUSTRY AND CERTAIN UNITS PRODUCING CONSUMER DURABLES LIKE AUTOMOBILES AND REFRIGERATORS THAT SUFFERED FROM DEMAND RECESSION;

C) COMMODITY PRICES AT END JUNE 1976 WERE 6 PERCENT LOWER THAN ON JULY 1, 1975, AN "OUTSTANDING ACHIEVEMENT" AFTER THE HIGH INFLATION IN 1973-74;

D) DOMESTIC SAVINGS INCREASED FROM 13.1 PERCENT OF CURRENT NATIONAL INCOME IN 1974-75 TO 14.5 PERCENT IN 1975-76 WHILE AGGREGATE INVESTMENT INCREASED FROM 14.8 PERCENT TO 16 PERCENT. INFLOW OF FOREIGN RESOURCES FELL FROM 1.7 PERCENT IN 1974-75 TO 1.5 PERCENT IN 1975-76;

E) INDIA'S NATIONAL INCOME AT CONSTANT (1960-61) PRICES INCREASED BY 5.5 PERCENT IN 1975-76 COMPARED WITH A MEAGRE INCREASE OF 0.2 PERCENT IN 1974-75;

F) INDIA'S BALANCE OF PAYMENTS IMPROVED "REMARKABLY" IN 1975-76 DESPITE A SIZEABLE FOREIGN TRADE DEFICIT FOR THE SECOND YEAR IN SUCCESSION. FOREIGN EXCHANGE RESERVES INCREASED SHARPLY MAINLY DUE TO HIGHER EARNINGS ON INVISIBLES ACCOUNT, AND LARGER INFLOW OF FOREIGN AID.

2. THE RBI REPORT FORECASTS AN OVERALL ECONOMIC GROWTH RATE OF UNCLASSIFIED

UNCLASSIFIED

PAGE 03 NEW DE 13619 151135Z

BETWEEN 6 AND 7 PERCENT IN THE PERIOD JULY 1976-JUNE 1977. IT ANTICIPATES ONLY A MODERATE GROWTH IN AGRICULTURE IN VIEW OF THE LARGE INCREASE RECORDED LAST YEAR BUT POINTS TO FAVORABLE TRENDS IN INDUSTRIAL PRODUCTION IN RECENT MONTHS TO PROJECT A 10 PERCENT OVERALL GROWTH IN INDUSTRIAL OUTPUT IN 1976-77. ACCORDING TO THE REPORT, INDUSTRIAL PRODUCTION IN APRIL-JUNE 1976 WAS 16 PERCENT HIGHER THAN IN APRIL-JUNE 1975, THE HIGHEST GROWTH RATE EVER ACHIEVED BY INDIA.

(NOTE: THIS IS A FALLACY SINCE INDUSTRIAL OUTPUT IN APRIL-JUNE 1975 WAS ABNORMALLY DEPRESSED AND HAD PICKED UP APPRECIABLY IN SUBSEQUENT QUARTERS). THE REPORT CONSIDERS A 10 PERCENT INDUSTRIAL GROWTH TARGET FOR 1976-77 FEASIBLE BECAUSE OF INCREASED AVAILABILITY OF ESSENTIAL RAW MATERIALS AND POWER AND THE GOVERNMENT'S RECENT DECISIONS TO LIBERALIZE INDUSTRIAL LICENSING AND IMPORT CONTROLS.

3. ON INFLATION, THE REPORT IDENTIFIES THREE MAJOR FACTORS - INCREASED INVESTMENT, RELEASE OF DEPOSITS WHICH WERE IMPOUNDED IN 1974-75 TO CHECK INFLATION, AND ADDITIONAL BANK CREDIT - AS POTENTIAL DEMAND PRESSURES LIKELY TO EMERGE THIS YEAR. IT STATES THAT WHILE THE SUPPLY-DEMAND BALANCE IN RESPECT OF BASIC COMMODITIES LIKE FOOD-GRAINS IS COMFORTABLE, THE PRESENT RELATIVE PRICE STABILITY FOR OTHER COMMODITIES IS VULNERABLE. IT SUGGESTS THE ESTABLISHMENT BY THE GOVERNMENT OF A SYSTEM TO CHECK ANY LARGE SCALE IMBALANCES IN SUPPLY AND DEMAND OF COMMODITIES IN SELECTED AREAS AND COMMODITY CATEGORIES.

4. COPIES OF THE REPORT WILL BE TRANSMITTED WHEN AVAILABLE.

5. COMMENT. THE RBI REPORT PRESENTS A BALANCED VIEW OF THE PRESENT STATE OF THE INDIAN ECONOMY. ITS PROJECTIONS OF A 6-7 PERCENT OVERALL ECONOMIC GROWTH AND A 10 PERCENT INDUSTRIAL GROWTH THIS YEAR, HOWEVER, APPEAR TO BE ON THE HIGH SIDE.SAXBE

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CENTRAL BANK, ECONOMIC CONDITIONS, ECONOMIC GROWTH, ANNUAL REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 15 SEP 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976NEWDE13619
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760348-0473
From: NEW DELHI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760958/aaaabxov.tel
Line Count: 141
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: vandyklc
Review Comment: n/a
Review Content Flags:
Review Date: 24 FEB 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 FEB 2004 by MaustMC>; APPROVED <26 AUG 2004 by vandyklc>; APPROVED <26 AUG 2004 by vandyklc>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: RBI ANNUAL REPORT HIGHLIGHTS ECONOMIC GAINS SUMMARY. THE RESERVE BANK OF INDIA (RBI) IN ITS ANNUAL REPORT COVERING THE PERIOD JULY 1975-JUNE 1976, POINTS TO
TAGS: EGEN, EFIN, IN
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006